RODGERS INVESTMENT CONSULTING

LAS / MFOA
Asset Management Symposium

Why the Financial Stuff Matters

March 25, 2015

AMP's are challenging but so are Investments

- Competing short term and long term needs
- More needs than resources available
- Desire to avoid unpleasant events
  - Frozen pipes
  - Negative returns
- Distaste for tax increases
- Distaste for deficit financing
- Distaste for Volatility in earnings

Without an Investment Plan there is No AMP

- An AMP without an Investment Plan is simply a wish list
- The Investment Plan determines how you pay for the wish list
  - Tax increases
  - Interest income on deposits
  - Interest, dividends and capital appreciation

Determine Philosophy

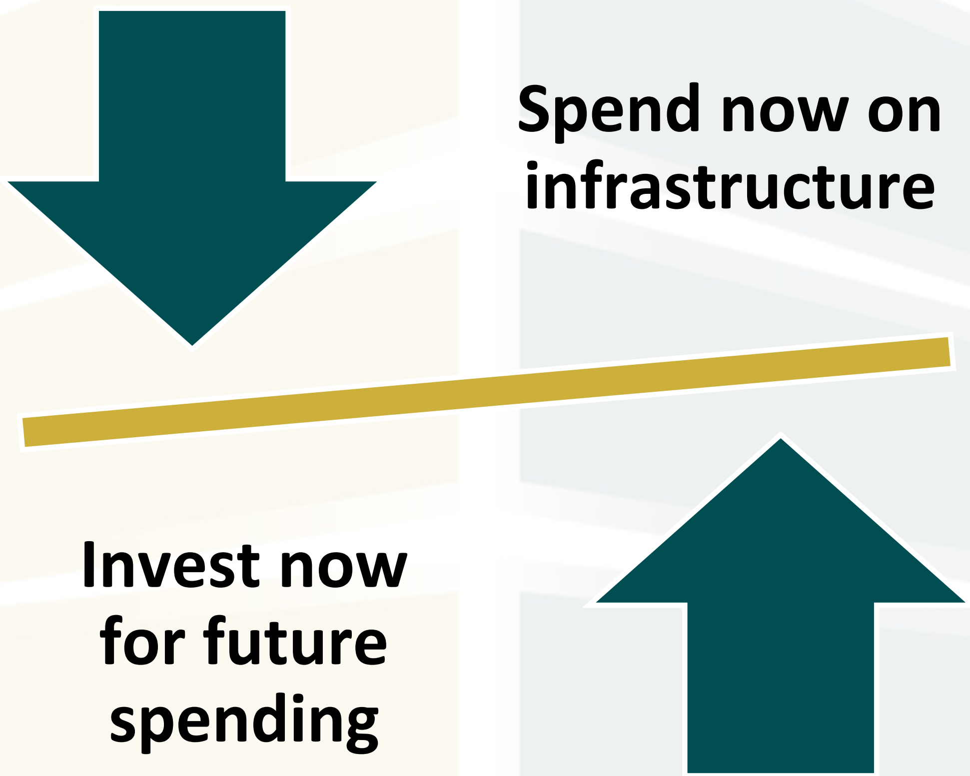
Who should pay

- Current taxpayers pay for current expenses and future taxpayers pay for future expenses

Challenge

- Some of those future expenses are caused by today's usage

Competing Interests



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Pros and Cons

Spend Now

Pros

- Clear up backlog
- Appeal to voters
- You will be retired or out of office in 15 years

Cons

- Creates a bigger bill down the road
- Bigger tax increases down the road

Invest now

Pros

- Use investment returns to mitigate future tax increases
- Use today's tax dollars to prepare for future replacement

Cons

- Reduces funds available now for critical needs
- You won't be around to receive the accolades

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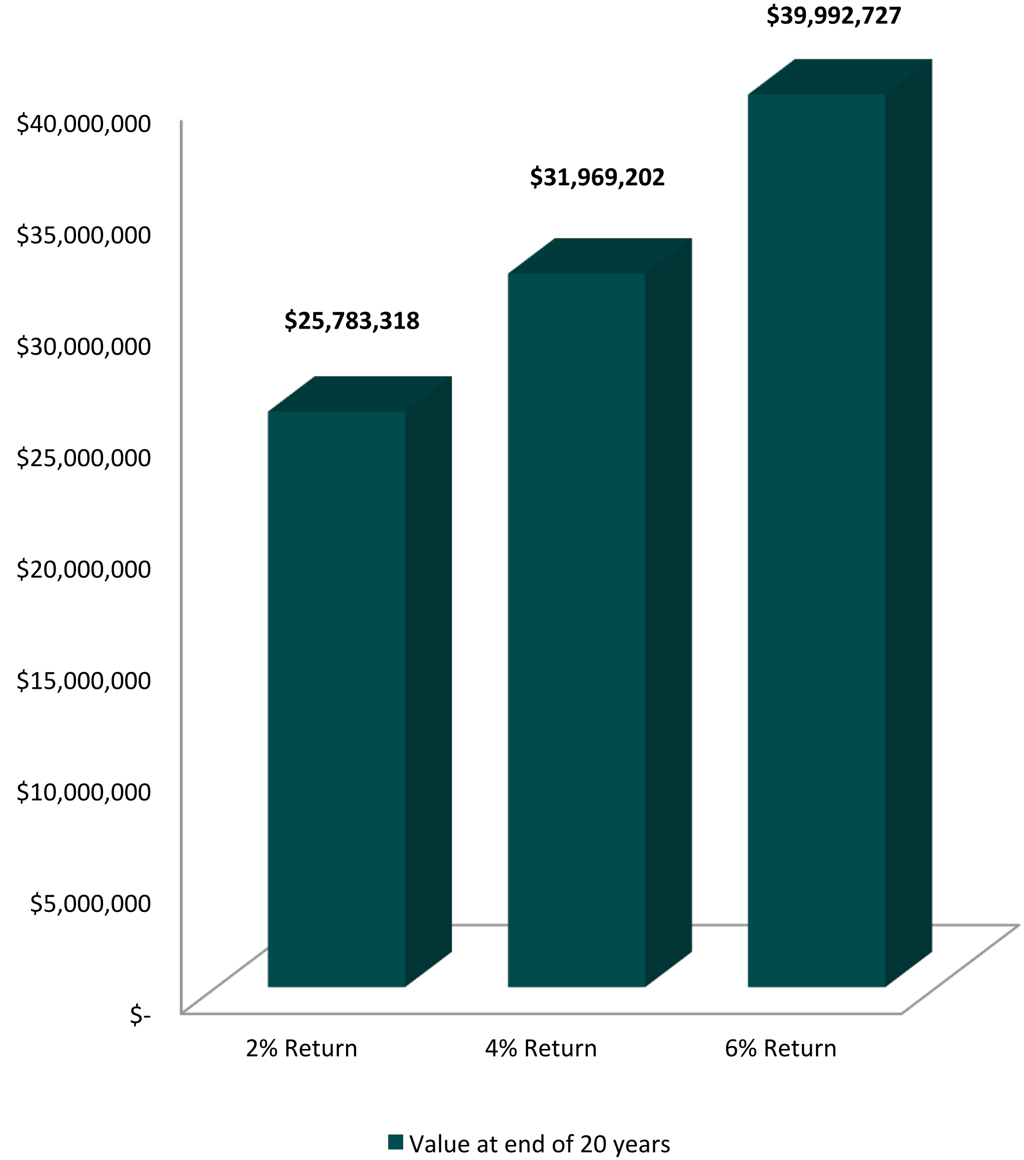
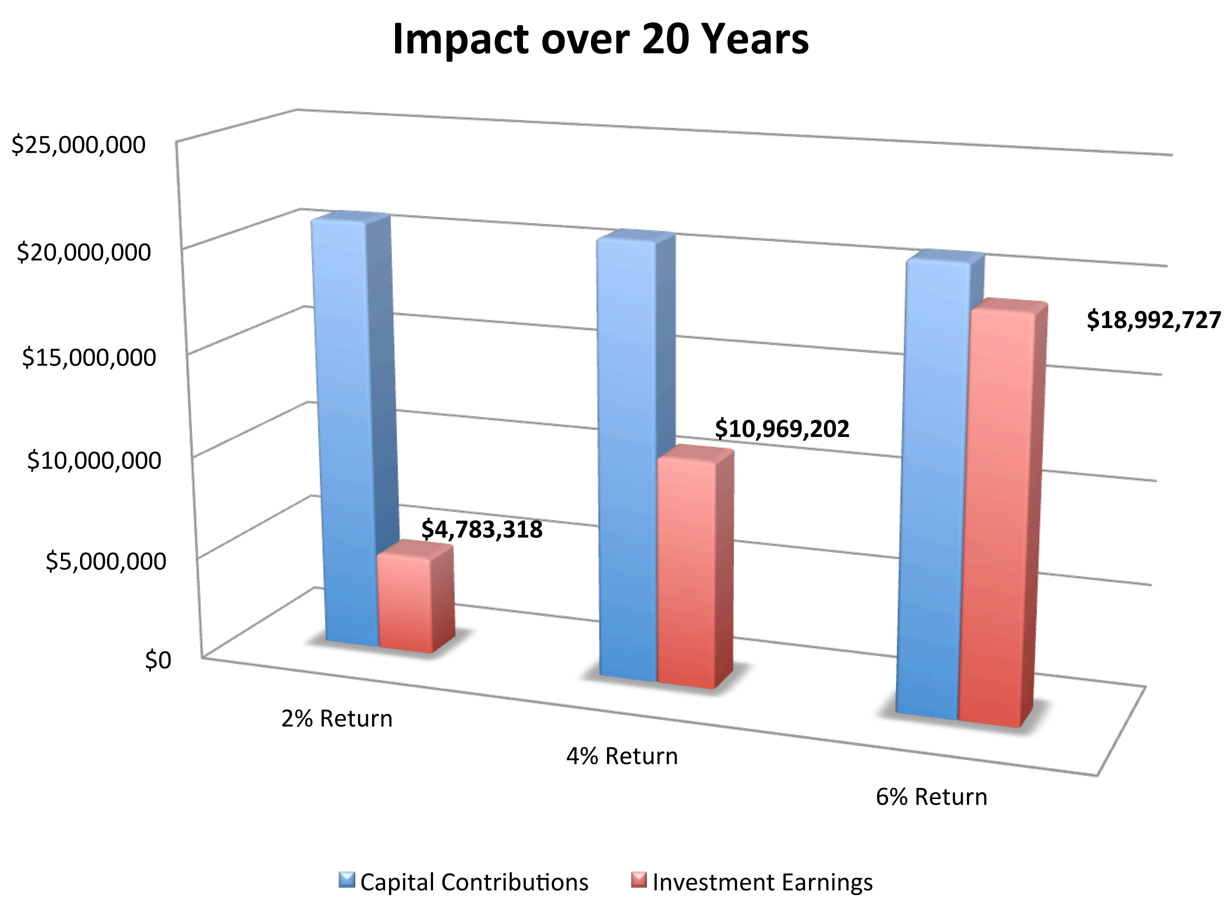
Can Investment Returns Really make a Difference

- Yes they can
- As close to free money as you can get
- The cost is tolerance for volatility

Assume $1 mil. Initial investment and additional investments of $1 mill at the end of every year



Investment Returns can make a big difference



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Realistic Earning Rates

- Over the long term equities outperform
- Bonds don’t do well when interest rates rise
- Corporate Bonds provide additional yield (returns) over Government Bonds
- Returns used in previous charts are conservative and realistic

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Actual Historical Returns

At December 31, 2014	5 Year		10 Year		15 Year		20 Year	
	Return	Volatility	Return	Volatility	Return	Volatility	Return	Volatility
CPI	1.7%	1.2%	1.7%	1.3%	2.0%	1.3%	1.9%	1.2%
Treasury Bills	0.8%	0.1%	1.8%	0.5%	2.4%	0.5%	3.0%	0.6%
GIC's (5 year)	1.8%	0.1%	2.3%	0.2%	2.8%	0.3%	3.4%	0.4%
Short Term Bonds (1-5 years)	3.0%	1.4%	3.8%	1.7%	4.8%	1.9%	5.6%	2.1%
Government Bonds	4.6%	3.3%	4.8%	3.7%	5.8%	3.8%	6.8%	4.1%
Mid Term Bonds (7-10 years)	6.8%	4.2%	6.1%	4.1%	7.0%	4.3%	7.8%	4.6%
Canadian Equity	7.5%	10.2%	7.6%	13.9%	7.3%	13.7%	9.6%	14.5%
U.S. Equity (C$)	17.9%	8.6%	7.3%	11.1%	2.7%	12.5%	8.8%	12.8%

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Determining Asset Mix

Bridge Replacement		*Road Repair*		*Arena Roof*		*Water Treatment Plant*		*Sewer Replacement*	
Time	Equity %	Time	Equity %	Time	Equity %	Time	Equity %	Time	Equity %
15 years	75%	2 years	0%	10 years	60%	7 years	40%	12 years	65%
Percentage of Total Reserve Balance									
15%		17%		5%		20%		43%	
Total Allocation to Equities									
11.25%		0.00%		3.00%		8.00%		27.95%	
Consolidated Allocation to Equities						50.20%			

Other Considerations

- Interest rates at historic low levels
- It may make sense to borrow (leverage) for assets that have long life spans
  - Bridge with a 30 year life paid for over 30 years
- Accelerating Infrastructure investments may bring both financial and non financial benefits
  - May increase ability to attract businesses & industry
  - May provide a better quality of life for residents facilitating faster population growth

Recommendations

- Match you investment time horizon to your spending time horizon
- Use Investment Returns to create additional funds
- The cost of volatility is worth it
  - A few sleepless nights
  - A few stressful meetings
- Prudent Stewardship is a long term approach

Rodgers Investment Consulting

- Established in 1993
- Working with Municipal organizations since 2003
  - Municipal Agencies, ONE & Municipalities
- Independent
  - No affiliations with any investment firms or investment products
- Customized Services
  - All services are customized to each client's unique needs
- Kelly Rodgers, CFA
  - Over 30 years experience in Investment Management and Consulting
  - Charter Financial Analyst, 1989

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